

HERE IS CLEW'S ANNUAL REVIEW

By Henry Clew.

NEW YORK, Jan. 1.—A large portion of the civilized world is still straining every energy toward destruction and hatred, instead of construction and good will. Exhaustion looms in front of several of the belligerents, yet the struggle goes on with unquenched ferocity, the chances being that worse bloodshed and worse destruction must be endured before the end arrives. Only one of the great powers has been able to avoid the conflict, and that, thanks to its geographical position, is the United States, which is also the only nation benefiting in any degree from this unhappy struggle. On the other hand we have been forced to endure patiently many annoying inconveniences. We have given generously for relief of the suffering people of all nations, and must continue this help indefinitely out of regard to humanity. Our own particular losses in the war have been chiefly those resulting from the violent losses on the import side. What we have really gained by the war cannot yet be accurately gauged, either as to permanence or importance. Hitherto, our greatest advantages have been in opportunities offered rather than in things actually accomplished. We have not always availed ourselves of these opportunities, but now the doors of opportunity have again been flung wide open, with the probability of remaining open; and the United States, without doubt, is on the threshold of great commercial expansion abroad. This country is increasing its output of manufactures at a much higher rate than growth of population, while its growth in agriculture barely keeps pace with home demands. It is within the realms of certainty that exports of manufacturers will increase enormously within the present generation, while our exports of farm products may practically cease. Surplus products from our mills must find foreign buyers, to gain which we will be obliged to meet foreign competition, selling at prices, terms, quality, style, etc., that will command a preference for American products.

Looking Out, Not In.

It would be folly for us to expect that these foreign markets will be easily won. In all probability a fierce struggle for supremacy in this respect will follow after the war, particularly on the part of Germany. Much of her foreign commerce will be temporarily lost, and she will be seriously handicapped in its recovery by financial, commercial and even human exhaustion. Nevertheless, she will make a supreme struggle for recovery, and by her wonderful organizing powers plus her scientific methods and government help she will undoubtedly rally more vigorously and effectively than her enemies are disposed to expect. Great Britain has also suffered in her foreign trade, but relatively much less than any of the belligerents, because of her ability to keep open the world's highways for herself and friends, while closing them to her enemies. When the war ends Great Britain will undoubtedly recover more quickly and be a larger gainer by the war than any of the belligerents. With her empire more

firmly welded as a unit probably than before, with the world free of war for a long period thereafter, with her people strengthened, sobered and energized by adversity, with her territory undevastated, she will be more free than ever to pursue her policy of worldwide development and peaceful conquest. Our chief commercial rival will undoubtedly be Great Britain, but in this there will be stimulus without danger so long as the spirit of fairness and freedom possesses both nations in their intercourse—and provided always that both nations preserve the willingness to reason out all differences of opinion and interest, as for the last hundred years. The greatest difficulty on our part will come in the readiness or unreadiness of American manufacturers to meet the requirements of foreign markets, which hitherto they have often been indisposed to cultivate as a permanent, preferring the profits and ease of the home market. Evidently their viewpoint is changing, as illustrated by the intense interest displayed by many of our progressive business organizations in export trade. Slowly but surely, it is being recognized that if we wish to sell our products abroad we must be prepared to buy freely in return, and that excessive tariffs check exports as well as imports; or in other words, we must avoid shutting ourselves in while endeavoring to shut others out. Our new banking system facilitates the placing of foreign loans, for it is now realized that trade follows the loan, also that if we wish to sell to foreign countries we must invest in their developments and give them credit more freely than in the past. The American manufacturer requires the aid of the American banker, who in turn must interest and educate the American investor, without whose support any permanent winning of foreign markets will be impossible. American labor leaders must also be induced to take larger views of business and economic conditions, assuming that labor desires to find larger fields of employment and does not wish to drive capital out of the export business to its own detriment.

After the War.

No one can definitely answer the often put question what will happen after the war, or define the new map of Europe, or foretell the effects of this struggle upon the monarchies of Europe. Nevertheless, the outcome of certain tendencies can be somewhat apprehended and readjustments of great importance are inevitable. When peace comes democracy will make great strides, especially in Great Britain, Germany and Russia, and possibly in Italy also. Class differences will be attained between extremes in the social scale; also between capital and labor, partly as a result of the comradeship bred through sharing common dangers on the battlefield or in the trenches. In spite of new animosities many old ones will be forgotten. Many old problems and many former evils will melt away under the new ones pressing for solution. It is safe to believe that out of this tragic struggle of fire and sword much good will eventually come. In some respects the world will be saner and better than before the struggle. Even the bitterest enemies will be softened and disappear. And above all it is reasonable to hope that no other great war will occur for many years to come. Some preventive, in the form of enforced peace if necessary, will be applied. Great changes are to be expected in the formation and purposes of the various governments; and unless all signs fall we are to see a widening of government activities the world over, especially in the industrial field. The war forced Great Britain into socialistic measures on a scale never before contemplated, and it remains to be seen whether that government will loosen its control of railroad, insurance, shipping and the manufacturing enterprises undertaken as war measures. Increased government regulation seems inevitable. How far that will extend into actual ownership remains to be seen. Suffice it to say that Europe has to face a long and unsettling period of reconstruction and readjustment to new theories of social activities which will cause much unrest. The real action of the war upon the political situation in the United States will also be an interesting problem. With its consequent stimulus upon American trade and industry we are already familiar, but whether the unrest and extravagance of this country, derived from prolonged prosperity, will be checked as abroad, only the future can determine. This country has not been chastened by serious adversity or overwhelming crises for many years, and we cannot expect to entirely escape the reflex action of the upheaval in Europe, which sooner or later will reach these shores.

Conditions at Home.

Home conditions are distinctly better than a year ago. Of much encouragement is the shifting attitude of the government towards big business from one of open hostility to one of friendly regulation. Harsh investigations and prosecutions have ceased. So also has corporation-baiting, because it no longer pays politically, and hurts industrially. The new federal commission is at work endeavoring to tackle the stupendous job of regulating the commercial affairs of the United States in the spirit of fair play. Its great difficulty will be to decide what is and what is not fair competition. Many of the old political issues which throttled enterprise for years have ceased to exist, and it is years since business had so little to fear from unintelligent hostility as now. While this change is partly due to recognition of the injury to capital and labor alike from such hostile policies, the war was undoubtedly a powerful

factor in this evolution because it diverted attention from old problems and forced attention upon the new. In place of tariff, banking and other problems we now have such questions as preparedness, revenue, shipping, etc., all of which can be traced directly to the European struggle. The coming year, 1916, will be a presidential year and consequently a year of much talk and little action in the legislature, but in spite of this the political outlook so far as business is concerned is less disturbing than a year ago. The commercial outlook is also encouraging. The year 1915 proved a year of big crops; the largest and most profitable on record. The long era of prosperity which American farmers have enjoyed is assured for another season. Even in the south, where the output of cotton showed a large decrease, growers are likely to secure a larger value through the nearly doubling of prices. Interior merchants are consequently anticipating good business for at least the first half of the new year, and have had to buy freely for the replenishment of empty shelves. In the east, business has been materially aided by marvelous activity in the steel industry, incited at first by war orders, but intensified and prolonged by what is far more substantial, an awakened home consumption. Many important buyers, especially the railroads, had postponed orders as a matter of economy. With the turn of the tide, this accumulation of business came out with a rush; and the consequence is present record-breaking activity in the steel trade, which thus preserves its reputation as a reliable business barometer. American railroads have also benefited by these conditions; gross and net earnings for the last quarter of 1915 showing a most pronounced and encouraging turn for the better. In the industrial world the revival has been more marked than elsewhere. The causes were largely those just named, but the war has been a powerful stimulant in this particular field.

The financial situation successfully adjusted itself to war conditions; our banks are sound, and there has been a phenomenal expansion in loans without imperiling the limits of safety, thanks to the successful working of the new banking system and the flood of gold pouring in from Europe amounting in the last twelve months to about \$450,000,000. Money is plentiful and well distributed, as shown by activity in the retail stores on the one hand and a good investment demand on the other. The greatest danger to American prosperity at this time is excessive inflation arising from the plethora of funds and the war, and a special obligation is placed upon our bankers to restrain such tendencies. It is estimated that during the year we have taken back fully \$1,000,000,000 of our securities held abroad, while we have granted loans to the amount of about \$800,000,000. In addition we have taken back large sums of other obligations which cannot be traced, so that it is safe to say that foreign investments here, which at one time amounted to \$5,000,000,000, have been lessened fully \$2,500,000,000, showing a most remarkable investing or absorbing power in the United States. By means of these transactions we have greatly reduced our obligations abroad; our remittances in the future will be less and we will be to that extent better able to meet our domestic requirements. Capital at home, if the war has done us no other good, it has proved and fully awakened us to a realization of our financial independence. Henceforth we will be less and less a borrowing nation, while our ability to lend abroad will correspondingly increase. The net result will be to immensely advance New York as an international financial center. London's pre-eminence in this respect is not likely to be seriously shaken by the war, but New York promises to soon become a good second.

Abnormal Foreign Trade.

Abnormal conditions continue in foreign trade. During the 12 months ending Nov. 30 our exports aggregated \$2,427,000,000, or \$1,235,000,000 more than a year ago. Imports during the same period reached \$1,720,000,000, a decrease of \$128,000,000. The excess of exports for this period was \$1,707,000,000, and it is estimated that the excess for the year ending Dec. 31 will approach \$2,000,000,000. This phenomenal expansion was chiefly due to larger shipments of foodstuffs and munitions, the latter including anything from explosives and firearms to mules and automobiles. It has been practically offset by loans, credits, gold imports and foreign sales of securities, etc. For several months the exchange situation was decidedly serious and caused a marked depreciation in the pound sterling. As a result, however, of the Anglo-French loan and the recent mobilization of British credit, exchange has greatly improved and now appears to be well under control of London bankers, so that no further crisis such as was seen last summer is likely to be again experienced. The

greatest increases in exports of merchandise were to the belligerent nations; Germany and Austria excepted. The British Empire is now taking nearly on-half of our exports, and France, Italy and Russia have also been much heavier buyers than usual. Of course, our foreign trade, though enormous in bulk, is too abnormal or one-sided to be really satisfactory. When the war is over readjustment to a peace basis will be necessary; but a return to former conditions need not be immediately expected. Should inflation put this country upon a high-price level, the necessary readjustment will be all the more awkward and difficult. Great Britain, Germany and France are almost sure to be upon a much lower cost basis after the war than ourselves. For a time France and Belgium will be actively occupied in reconstruction, but it seems that both Great Britain and Germany will escape with little destruction of cities or plant. Both these countries will again engage in fierce competition for foreign markets, and unless we are prepared to meet this competition, we must expect to lose a very considerable percentage of the advantages recently gained in foreign markets. It may be that wages in Europe will be higher than expected, or that Europe will not be able to match some of the articles made in the United States, these being problems that must be worked out in the future. In this connection, one other thing must not be forgotten. Successful trade must always be of mutual benefit, or it cannot last. Europe's losses and misfortunes cannot permanently be our gain. The more impoverished Britain, Germany or France become, the less will they be to our benefit; and the less we buy from them the less we can sell. As in domestic trade, so in foreign, real prosperity lies in as abundant and free an interchange of products as possible, all friction and interference inevitably meaning losses.

Local Outlook.

The position of the stock market is vastly better than a year ago. This fact has been largely discounted by the rise which culminated in October. The decline since then was largely in the industrials most affected by the war, it being recognized that their abnormal profits cannot continue for the reason that the belligerents are now better able to supply their own necessities. Nevertheless, many of the industrials will benefit from the legitimate revival of business induced by a rich harvest and the late plethora of money. The railroads, however, stand to benefit more substantially than any other class of investments from present conditions. Their earnings, gross and net, are showing most encouraging gains. Operation has usually reduced to the lowest cost, public hostility has been greatly lessened, and a realization exists of the harm that has been done, so that the outlook for this great industry is better than for several years. There is the possibility of a too free return of American stocks and bonds held abroad; but this is hardly likely because the British government, through its mobilization scheme, will control British selling and will not intentionally spoil its own market. Besides, the amount of such investments for actual sale cannot be large, and much of what remains consists of high-grade investments held in trusts, etc., and likely to remain abroad. At this writing, the chief obstacle to a more active and stronger market is the prospect of dearer money and the coming presidential election, which promises to be a warm contest. The war has thrust aside many of the old issues, and in place of corporation and money trust-baiting, we already have preparedness, revenue and shipping. A prolonged discussion seems probable over preparedness, and owing to a clever and persistent propaganda, there is danger of the people being stampeded by ungrounded fears into appropriations for a much larger fleet and army than necessary. When peace comes none of the belligerents will be in a condition to be anxious for another war for some time, at least. Hence none are likely to have serious designs upon the United States, and if they did, a quick strengthening of our navy on defensive lines and the creation of a reasonable and up-to-date army would meet the requirements for defensive purposes. It is absurd to believe, as one estimable authority would have us, that we need as large a navy for our protection as the British empire, which includes nearly one-quarter of the world's population, territory and trade. Great Britain has a widely-scattered empire and her people live upon an island wholly incapable of self-support. The United States is a continent, has unlimited resources, agricultural and mineral; and no foreign army, even if it landed, could go beyond the coast for more than a few miles. There is no sound reason why we should lose our poise and be swept off our feet into militarism or navalism, the consequences of which have proved so ruinous to others. Still, I believe in ample preparedness.



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